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EXPERIENCE OF FEDERAL AGENCIES UNDER THE PROGRAM OF SELF-INSURING FIDELITY LOSSES PURSUANT TO PUBLIC LAW 92–310

FOR FISCAL YEAR ENDED JUNE 30, 1975

COMMITTEE ON
POST OFFICE AND CIVIL SERVICE
HOUSE OF REPRESENTATIVES

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LETTER OF TRANSMITTAL

THE SECRETARY OF THE TREASURY,
Washington, D.C., December 24, 1975.

Hon. CARL ALBERT,
Speaker of the House of Representatives,
Washington, D.C.

DEAR MR. SPEAKER: In accordance with the requirements of section 103 of the act of June 6, 1972 (31 U.S.C. 1203), I am pleased to transmit herewith a report on the experience of Federal agencies under the new program for self-insuring fidelity losses of Federal personnel, for the fiscal year ended June 30, 1975.

Sincerely yours,

STEPHEN S. GARDNER,
Acting Secretary.

Enclosure.

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REPORT ON EXPERIENCE UNDER THE GOVERNMENT'S PROGRAM OF SELF-INSURING FIDELITY LOSSES FOR FISCAL YEAR ENDED JUNE 30, 1975

Background

Section 103 of Public Law 92-310, enacted June 6, 1972 requires that, for each of the first five full fiscal years following enactment, the Secretary of the Treasury transmit to the Congress, on or before December 31 of each year, a report concerning the experience of agencies of the executive branch in self-insuring fidelity losses under the Act.

The primary purpose of this new law was to eliminate fidelity bonding of Federal personnel and to adopt, in lieu thereof, a self-insurer concept permitting agencies to charge uncollectible fidelity losses against their operating appropriations. Based upon past experience, it was estimated that savings of over $100,000 annually could be realized by the Government through self-insurance.

Reports from Agencies

Pursuant to instructions promulgated by the Treasury Department, reports containing specific information concerning fidelity losses were submitted to the Treasury by the various executive branch agencies (except the Postal Service) and certain offices of the legislative and judicial branches which had reported the results of their bonding operations in the past.

The Postal Service discontinued fidelity bonding in 1971, prior to enactment of P.L. 92-310, and has advised the Treasury that its counsel has determined the act has no applicability to the Postal Service. Therefore, the Service is not compiling data to report to the Treasury.

Government corporations are reporting minor activity under the new program of self-insurance. Because the corporations did not report to the Treasury under the old program of fidelity bonding, the Treasury has no basis on which to estimate the savings. Accordingly, experience of the corporations, under the new program, is excluded from the figures given below. As a matter of information, the corporations and one executive branch agency, which also did not report under the old program, have reported a total of $10,698 in losses since inception of the new program. Of that amount $7,961 has been recovered from individuals, $100 has been charged to appropriations, and $2,637 was pending disposition at June 30, 1975.

Mixed Operations in Fiscal Year 1975

In fiscal year 1975, a few agencies continued to report activity under both the new self-insurance program and the old bonding program, since the above law stipulated that bonds in force at the time of enactment of the Act would remain in effect for their full terms, subject to cancellation and other provisions in such bonds. Some of the bonds did not expire until December 31, 1973 and claims are still being made against sureties for losses incurred while the bonds were in force. Consequently, there was still some activity under the old program during fiscal year 1975. Accordingly, the operating results for the new program and the old program are presented below in separate sections.

Experience Under Self-Insurance Program

Some 20 agencies adopted the self-insurance concept during fiscal year 1973. During fiscal year 1974 the remaining agencies adopted the self-insurance concept, although some bonds were still in effect for part of that year. All agencies were entirely under the self-insurance program during fiscal year 1975. To provide a meaningful appraisal of the results of their operations, we have summarized the pertinent statistics relating to the experience of all such agencies covering five full fiscal years (1968 - 1972) and developed average comparable costs. Such costs consist not only of premiums and administrative expenses of the agencies in procuring the bonds, but also include losses in excess of bond coverage which were paid by the Government under the bonding program.

The difference of $431,485 between these estimated costs of $992,299 under the old bonding program and the losses of $560,814 charged against the agencies' appropriations under the self-insurance program represents the estimated savings to the Government, as shown in the following table. However, allowance would have to be made for additional losses which may be charged off later and for related recoveries of funds from defaulting employees. A major part of the self-insurance losses consists of an extraordinarily large amount of $361,000 reported by the Agency for International Development in 1974. The case involved the processing of forged documents in support of five local currency check payments covering the purchase of food for a foreign aid program in Southeast Asia. The agency has reported the loss to the General Accounting Office, but has been unable to fix responsibility.

Estimated Savings Under Self-Insurance Program

	Fiscal Years 1973 - 1974 1/	Fiscal Year 1975 2/	Fiscal Years 1973 - 1975
Average annual comparable cost of bond program (1968 - 1972):			
Premiums	$168,939	$121,806	$290,745
Administrative expenses	93,326	71,906	165,232
Losses in excess of bond coverage	317,144	219,178	536,322
Total	$579,409	$412,890	$992,299
Less: Losses charged to agencies' appropriations under self-insurance program (including losses which would have been in excess of bond coverage under old program)	83,595	477,219 3/	560,814
Estimated savings (loss)	$495,814	$(64,329)	$431,485

1/ Includes one half year's activity for the 20 agencies which adopted self-insurance during FY 1973 and one year's activity for FY 1974 for all agencies.

2/ Represents a full year's activity for all agencies.

3/ Includes $361,000 AID payments from Foreign Currency Trust Fund.

Experience Under Bonding Program

Experience has shown that, while claims paid by surety companies may exceed premium charges for a year or two, this situation could not be expected to prevail over a period of time. Based upon the companies' loss experience and other factors, bond premium rates are established at

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a level that will cover not only the cost of the loss payments, but the administrative expenses of the companies and an allowance for profits. During fiscal year 1975, activity relating to the bonding program continued to decrease. The following table shows the bonding program activity during the past five fiscal years:

Fiscal Year	Premiums Paid	Administrative Expenses	Claims against Sureties	Recoveries from Sureties
1971	$135,633	$82,313	$ 71,242	$38,256
1972	122,722	87,922	102,422	31,318
1973 1/	44,583	28,784	79,622	45,568
1974 1/	-0-	17,722	18,238	40,317
1975 1/	-0-	2,089	6,244	15,582

1/ Covers run-off activity subsequent to enactment of P.L. 92-310, June 6, 1972.

Summary

During fiscal years 1973 and 1974, all Government agencies eliminated the fidelity bonding of Federal personnel and adopted a self-insurance program for fidelity losses, as authorized by Public Law 92-310. However, since the new law stipulated that bonds in force could be permitted to run their respective terms, a few agencies still reported some activity under the old bonding program.

Adoption of the self-insurance program has resulted in estimated savings of $431,485 since inception. This exceeded the savings estimated at the time the new program was adopted, even though one agency has suffered an extraordinarily large loss under the new program. However, as indicated above, allowance must be made for additional losses and recoveries which may be reported later by the agencies.